

CHANGING ACCOUNTING DATE COULD DELAY MAKING TAX DIGITAL FOR SELF EMPLOYED - UPDATE 15 FEB 2017

Self employed businesses who feel that they may need more time to adjust to the requirements of Making Tax Digital could consider changing their accounting date.

The government response on Making Tax Digital confirmed the start dates as April 2018 for income tax reporting; April 2019 for VAT reporting; and April 2020 for corporation tax reporting (and, following the consultations, income tax reporting for partnerships with turnover exceeding £10m (see our Factsheet "Making Tax Digital - February 2017 update").

On its tax news page, the ICAEW points out that draft legislation allowing for regulations on MTD obligations to be introduced has been published and states that regulations 'may not impose requirements ... (a) in respect of any tax year before the tax year 2018-19, or (b) in respect of any period of account beginning before the tax year 2018-19.' In its analysis of the regulations ICAEW's tax faculty points out that the first self-employed businesses to which Making Tax Digital obligations will apply are those who have an accounting period starting on 6 April 2018. Such businesses will need to start keeping electronic records from that date and their first quarterly report would be to 5 July 2018. Businesses with 30 April accounting dates would follow shortly after.

Considering other possible periods of account, the Making Tax Digital obligations of businesses with an accounting date of 31 March 2018 will not start until 1 April 2019, when electronic record keeping would start, with the first quarterly report being to 30 June 2019; such businesses will be amongst the last to start Making Tax Digital reporting for income tax.

ICAEW suggests this presents an opportunity for self-employed businesses to consider adopting a 31 March year end and gain more time to adapt to the new requirements. The rules for changing accounting date would need to be considered, but it would present an opportunity to use up any overlap relief before any reform of the basis period and overlap relief rules. It would also mean that the 'soft-landing' for late submission penalties would not expire until 2020.

This option will not be available to property businesses, which are obliged to report on a fiscal year basis. We shall be considering this in the round for our clients but if you would like further information please be in touch.